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Banking & currency reform

London

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BANKING & CURRENCY REFORM,

BY

A. ALISON, Esq.

Author of the Philosophy and History of Civilization.

"Our system of Currency will remain imperfect until some mode shall be discovered of enabling it to apportion the supply and demand without reference to the influx or efflux of specie."—*The Times.*

LONDON:

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1865.

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PHILOSOPHY & HISTORY OF CIVILIZATION.

By A. ALISON, Esq.

London: CHAPMAN & HALL, Piccadilly.

"This is in every respect a remarkable book; remarkable for the extent and variety of its information, for the sincerity of its convictions, for the boldness of its views, and for the out-spoken, fearless manner in which it is written. It is unquestionably honest and consistent throughout. Neither can there be a second opinion as to the great value of the Work in a social point of view, as an exponent of the errors of past civilization, and of the probable future to which present civilization is tending at a rate of rapidity of which few persons have any clear conception."—*Observer*.

"The work is of an entirely opposite character to that of Mr. Buckle; being a vindication of the efficacy of the Free Will in the affairs of the world; and we hail it cheerfully as a valiant protest against the overwhelming preponderance, of late years, of the Necessitarian School."—*Athenæum*.

BANKING AND CURRENCY REFORM.

That the Bank Act creates a monopoly, and restricts the freedom of trade and action, none will attempt to deny; and if free-trade is the right principle, and monopoly and restriction the wrong one, it follows that the Bank Act of 1844 must be fallacious, and opposed to progress and prosperity. That it is so I have not the slightest doubt. The late Sir G. C. Lewis said that the Act did good in ordinary times, but that it did more harm in one day than all the good it did in ten years. Now, if the Act produces so foul a blot every ten years it must be a rotten system indeed. If, with so bad a system, we have reached a vacillating and precarious prosperity, what good may we not expect under a better system, for we have prospered not *because* of the Act of 1844, but *in spite* of it.

Let the Act be now reformed in the manner I shall venture to suggest, and the next ten years will prove the error of Sir Robert Peel's false system of currency and finance. When hundreds of our mercantile firms, who have been carrying on a legitimate business, apart from all speculation, are reduced from wealth to poverty, and when the hundreds of thousands they employ are thrown out of their daily bread in cousequence of a bad system of banking, the people may well raise the cry of injustice. Yes, the Bank Act is unjust to the merchants and unjust to the workmen and their families. I do not, of course, blame the Bank directors for applying the screw, and bringing on a crisis; but I do blame the Legislature for allowing an Act, which has repeatedly proved itself to be wrong, to remain on the statute book.

In reviewing the history of commercial crises, it will not be necessary to go further back than 1837. The monetary difficulties of that year arose from a vaiety of causes, both political and social, the particulars of which it is unnecessary to give. In 1847 a severe crisis ensued. This was occasioned by bad crops, and an outlay of 400,000,000*l*. expended on railways in two years. This expenditure, coupled with a diminution of the income of the nation from a deficient harvest, could not fail to produce great distress. The interest of money reached 10 per cent., when the Bank Charter was suspended, and immediate relief given. In 1857 another crisis occurred, which was caused by the expenditure of the Crimean war, and the high price of corn: the Bank Act is again suspended, when the pressure ceases.

Many of our merchants attribute the cause of the present crisis (1864) to the fall in the price of cotton; but that is an idea which is at variance with sound principles of political economy. It has always

been held that a rise of price of raw materials injures trade; and if that be so, it follows that a fall will do good. As well suppose that an abundant harvest, and the consequent fall in the price of corn, would do injury to trade. But it is said that the suddenness of the drop has caused the failures; but if that were so the failures which have taken place would be confined to the holders of cotton and cotton goods; and as that is not so, we must look for some other cause for the existing evil. We have had two abundant crops of corn, so that the price of food is not the cause. We have had no war, or political troubles, nor any public loans, so these usual sources of difficulty have had nothing to do with it. On the contrary, trade and revenue have been in a prosperous condition for some years. For the last two years we have had to pay 25,000,000*l.* per annum more than usual for our cotton, which is equivalent to two bad crops of corn. To this evil must be added the extension of credit and trade effected by the Limited Liability Act of 1862. But against these two items must be placed a prosperous trade, and the absence of any unusual outlay on railways or loans. Now as the cause of the present crisis is not to be found in the passing events of the day we must look to our Banking and Currency Laws for the solution of the mystery.

The repeated suspensions of the Bank Act is the proof that the Act is unsound in principle; for if it were sound no suspension would be necessary. Want of confidence and a crisis are brought about by the Bank directors raising the interest of money to an exorbitant rate. When a medical man lays his patient on a bed of sickness by lowering medicines he says, "See how ill your friend is; but wait a little, and you will see how I will restore him to health." It is the same with the Bank Act. The Bank directors, in obedience to the provisions of the Act, apply the screw whenever the stock of bullion is lower than usual. Ruin to the mercantile interest is the consequence; and after the Bullion is restored to the Bank, the obnoxious Bank Act is held up as the saviour of credit and commerce.

The issue of Bank of England notes always remains the same, whatever the wants of the nation may be. In 1844, when the Bank Act was passed, the issue of notes was about 20,000,000*l.*, and it is the same now in 1864, notwithstanding that the imports and exports have more than doubled in that time! It is true that the issue of coin has increased, but not at all in proportion to the increase of population and trade. The Bank Act makes the supply of gold the measure of credit and trade. If the supply of that metal was unlimited it would be no check, and it is because it is a limited article that it is used. The Bank Act is, therefore, based on a fallacy, for to demand an impossible supply of anything is an absurdity. There is a limit to the supply of gold, and when that limit is reached trade must be reduced down to it. The Bank Act requires credit to correspond to gold; and, as the supply of gold cannot be increased, trade and credit must be reduced to restore the two to an equilibrium. Credit and trade are thus made to succumb to gold, which is a manifest injustice, and contrary to sound principles of political economy and legislation. If a check to overtrading must be had, let Parliament find a better check than an insufficient supply of gold.

I have lately read a series of articles in the *Economist* newspaper. The writer commences by admitting that the Bank Act is fallacious, but the remedy he proposes is no remedy at all. We are to be condemned to retain a bad law, and to place ourselves at the mercy of the Queen's Ministers to deliver us from it, whenever it becomes too bad to be tolerated. I ask that journal, which professes to be one of the organs of the Free-trade party, why they should desire the continuance of a monopoly when they advocate the opposite policy in corn and other commodities? Is that consistent?

What would we think of a man who wore the same coat when he was twenty stone weight that he used when he was only ten stone? We should say he was a fool who had put himself into a straight-jacket. And so it is with the Bank Act, for it keeps down the quantity of circulating medium to the same amount it was twenty years ago, although the trade of the country has doubled in that time. That such a thing could happen in a free country like England, is almost incredible.

The rate of interest since 1844, when the existing law came into operation, has fluctuated from two and a-half to ten per cent., which is a degree of variation unprecedented in trade. This indicates the existence of a fictitious state of our monetary laws, for if these laws had been based on natural laws, or in harmony with them, no such excessive oscillations or disturbances would have taken place. While the rate of interest was fixed at a maximum of five per cent. the evil of our currency laws, as was to be expected, was not felt half so much as after that restriction was taken off. I do not of course advocate a return to "restriction," but I say, it was not fair to take off that restriction without at the same time reforming the other portions of the system upon the same free-trade principles. To take off restrictions in one thing, and keep it on in another is only adding to the evil of our monetary system as has been abundantly shown by the result.

Great oscillation in the rate of interest is an evil, the magnitude of which it would be vain to attempt to estimate and that must continue so long as the present system remains unreformed. What is wanted is a moderate rate of interest, with only slight variations, an object which will certainly be obtained by the introduction of Exchequer notes into the system.

But what is the remedy? I reply there is only one remedy, and that is an issue of Government legal tender notes. All other reforms which do not include that will be found to be no remedy at all, but merely a change or a new shuffle of the cards. One party proposes an issue of one-pound notes as a remedy, but that would only make things worse, by increasing the tendency to a run for gold. Another proposes that the Bank may be allowed to issue as many notes as it pleases, with an obligation to hold gold to the extent of say one-third of its issue. This is certainly an improvement on the present law, but it cannot be called a remedy for a crisis which has been caused by the want of gold, for nothing but a substitute for gold can be a remedy. If I am told that this will have the tendency of displacing Bank of England Notes and gold; I answer that the Ex-

chequer notes will not be for less than £100 each, which would not interfere with the general circulation of the country. What is wanted is an ample supply of circulating medium, independent of gold or any thing else, and that will be got by the issue of Exchequer notes, and in no other way I can imagine. I am aware that some will object to these notes because they will be inconvertible into gold; but that, instead of being an objection, is the very reason why they are necessary to a sound system of banking and currency. *Convertibility* must stop somewhere, for if every thing must be convertible into something else, there can be no stability or resting-place. We would then be moving in an everlasting circle, which must end in disappointment and ruin. Those who have pinned their faith to the dogma of *convertibility* may not like the present proposal; but if they choose to be slaughtered every ten years for the sake of upholding opinions, which the experience of the present crisis has proved to be wrong, they are welcome to do so. They have now been told the truth, and if they will not listen to it they must be contended to bear the consequences.

It is important to distinguish between Currency and Capital, so that we may have a distinct conception of the causes of a money panic and the disastrous consequences which follow. The word "money" is sometimes used to denote capital, sometimes currency, which leads to much confusion. Strictly speaking the term should be confined to capital. It is clear that currency (coin and bank notes) is not the only thing that is money or capital, for monied men or men of capital possess only a few pounds in coin and notes. Then as the term "money" must be applicable to more than coin and notes; what is it? I answer that money or capital is property of all descriptions. I possess goods, houses, lands, shares, debts owing to me by my bankers and others. These are all capital or money and constitute the amount of my means after deduction of the sum I owe to others.

Currency is coin and notes that have been declared legal tender by Act of Parliament, all else is only capital or money. Gold, Silver, Copper Coin and Bank Notes is strictly speaking currency and not capital, for they are the means of transferring property from hand to hand irrespective of their intrinsic value, which is the use and object of Currency. Although Specie may at the same time be called money owing to the value of the metals it contains, yet considering its use and object, it is essentially currency. Currency is coin and legal tender notes or circulating medium, by which capital is transferred from hand to hand. It is therefore quite distinct from Capital, for the thing which transfers cannot be the same as the thing transferred. Such being the important functions of Currency it will be understood that great calamities must ensue whenever a want of it occurs, or a want of confidence in the ability of the system to supply it in the future. Look at a game of cards when a short-coming of counters occurs. A kind of panic and a stoppage of the game takes place although every one knows there is sufficient capital in the pool to meet engagements. This panic, it will be observed, occurs not from the want of capital, but from the want of currency, as in the case of the money crisis through which we are now passing, which has caused a

serious stoppage of trade, as shown by the falling off of our imports and exports. Coin and bank notes may be considered mere counters; and all we have to do to perfect the system is to see that there is always enough of counters, and these of a sound description, equal to any strain that may come upon them. At present we have neither enough counters nor these of a quality equal to the contingencies of trade. We may have enough for fair weather but certainly not for foul, and it is principally to provide against contingencies that the exchequer notes are wanted.

Something must be inconvertible or there can be no stability to any system of currency, of which the experience of our present system is the evidence. At present, gold alone is made inconvertible; but owing to that metal being in short supply, it is not at all suitable for being made the inconvertible basis of any sound system of currency. Gold, after a long experience, is found to be dangerous and treacherous in the extreme, as the basis of currency. It is like the shifting sands of the sea shore, which are there to-day and away to-morrow; and that being so, the sooner we find a substitute for it the better. Let our currency be based partly on gold and partly on Government legal-tender notes; or, if a mixed basis be objected to, exclusively on Govrnment, and we shall have a stable and sound system of banking and currency. Then we shall be able to dispense with the obnoxious restrictions of the Bank Act, for it is because our currency is founded on a false basis that these restrictions, so ruinous to our trade and commerce, have become necessary. The Bank may then be safely allowed to issue as many notes as it pleases, provided it holds at least two-thirds of the amount of its issues in Government notes and bullion. As the Exchequer notes will not be of a less amount than £100, and as they will not be convertible into gold, they will not interfere with the circulation of the Bank, whose issues may be expected to remain as large under the new system as they are at present.

If it be said that our capitalists will never consent to free-trade in money, I point to the Protectionists, who were at one time as much opposed to free-trade in corn as the bullionists are now opposed to free-trade in money. The Protectionists thought free-trade would be their ruin; but now that they see the result they are convinced that they were in the wrong, for agriculture has flourished ever since; and it will be the same with free-trade in money. How is it possible that capitalists can gain by the occurrence of money panics every ten years? They must put their money somewhere, and all stocks and shares suffer by these convulsions. As for panics raising the interest of money, it is just the reverse; for to raise interest to an exorbitant rate is certain to reduce it lower than ever, which has been the experience of all money panics. We may soon have the interest as low as it has ever been before, but that will be no sign of health or recovery; on the contrary, it will be a sign of deadness and collapse. This shows how absurd it is to suppose that capitalists can have any interest in maintaining the law as it at present stands. No possible reform can undo the evil which has been committed, but will prevent any future crisis, and hasten the recovery from the present collapse. Unless something is done our imports and exports will fall off, the revenue

will decline, and taxation, instead of being annually reduced, a thorough reform will be increased ; and if the income-tax be called on to make good the deficiency, which is more than probable, the moneyed interest will then see the folly of maintaining the present system.

The practice of attempting to restore the finances of the country by raising the rate of interest is short sighted and ridiculous in the extreme. The Bank raises the rate of interest with the object of drawing gold from other countries and filling its own coffers. This is robbing Peter to pay Paul. The immediate result is, that other countries are obliged, in self-defence, to raise their rate of interest to the same rate as the Bank of England, so that they may prevent the gold going out of the country. A strife for gold between the different countries ensues, and a crisis which begins at London spreads to every country in Europe. The relief which the Bank gains in this way is thus only temporary. It is a relief that is gained at the expense of a crisis which throws back trade for years, and involves much distress, not only in England, but throughout the world. When will our legislators be wise, and give up this foolish reliance on a metal which is as certain to prove false and treacherous as that the sun will rise tomorrow?

The *Times* newspaper says:—"Our system of currency will remain imperfect until some mode shall be discovered of enabling it to apportion the supply and demand for currency without reference to the influx or efflux of specie." This important announcement shows great discernment on the part of the writer, for it goes to the very root of the evil, and points out where the remedy is to come from. The discovery here alluded to I claim to have made. To carry out this great principle we must of necessity come to an issue of paper money that is inconvertible into gold, for unless we do that we cannot arrive at that state of perfection which is essential to the progress and prosperity of the nation.

When the question of reforming the currency was advocated in 1857 a reduction in the standard was demanded, whereas by my proposal no alteration of the standard is involved. The existing standard is a quarter of an ounce of gold, or thereby, to a pound sterling, and that standard I propose to recognise in the issue of Exchequer bank notes. When a prejudice existing in the public mind against an inconvertible currency is spoken of, we must recollect that prejudice is mixed up with the idea of reducing the standard; but as I propose no such change of standard, I hope no one will do me the injustice to imagine that I give ear to such crotchets.

A money crisis must arise from one or other of two causes, or a combination of both—1st, from a want of capital; or, 2nd, from the want of a good and sufficient circulating medium. While the first cause, the want of capital is natural and admits of no remedy, the second cause, a want of good currency, is distinctly removable. It is one of the primary duties of a Government to provide the nation with a safe and convenient currency ; and as the currency of this country has been found both unsafe and insufficient, the Government is bound in justice to the people to make such reforms as may be necessary to the perfection of the system.

The question now arises—Has the present crisis come from the want of capital or from the want of a good and sufficient currency? I say that it has arisen mainly, if not entirely, from the want of a good currency. Capital is of two kinds—*fixed* and *floating*. The floating capital available for becoming fixed consists of the savings of the nation. For the sake of argument, this floating capital may be set down at fifty millions per annum, or about ten per cent. of the national income. If more than that sum be annually laid out on railways and other fixed property, capital will be scarce and a crisis will ensue. But if we do not fix more capital than our savings amount to, no crisis can occur from the want of capital. I am of opinion that we have not been fixing capital beyond the amount named since the crisis of 1857, it therefore follows that the present crisis has not arisen from the want of capital, but from the want of a sound and sufficient system of currency. But it is time to come to business, and state distinctly the nature of the new species of Currency I wish to introduce. Here is a draft of the Exchequer bank notes:—

"£100 sterling. This Exchequer bank note, for which the full sum of one hundred pounds sterling has been paid to her Majesty's Treasury in gold and Bank of England notes, is a legal tender within the United Kingdom, and available for the payment of debts and liabilities, and shall at all times rank of equal value with one hundred sovereigns of the current coin of the realm. This note will likewise be received at the Custom-houses and Inland Revenue offices in payment of duties and taxes."

This Note bears on its face two complete checks on the Government. First, the exchequer cannot issue notes unless they receive the full price for them, which secures the notes from ever being depreciated in value. Second as the Government binds itself to receive the notes in payment of Duties and Taxes, they can always be sent back on them which is almost equivalent to a promise to pay. Nothing but an actual want of these notes to supplement the want of gold can bring the measure into actual operation, and if that want exists there is no reason why we should not have them, on the contrary every reason we should have them.

It will be observed that these notes will be entirely different from Exchequer Bills, which are not a legal tender. They will likewise be different from ordinary bank notes which are convertible into gold. The issue, therefore, of Government notes will not interfere with the present currency of the country, but will only supplement and support it, instead therefore of the banks having any jealousy or dislike to the innovation, they will hail its introduction with open arms, for it will consolidate and strengthen the entire system. Banking has always been considered an unsafe business owing to the infirmities of our currency system, which exposes the banks to a run for gold in payment of their deposits and notes. But when there is an ample supply of Exchequer bank notes to fall back on banking will become as safe as any other business. When we have a substitute for gold no bank can fail which is possessed of means, which cannot be said at present. Look at the history of banking in past years, and see how many banks have failed which had

ample means, but were obliged to stop payment in consequence of the want of gold; but with the new system that can never happen.

I do not propose an unlimited issue of Exchequer notes. On the contrary, I distinctly limit the issue to £20,000,000, which will probably be sufficient to give entire security to the currency and banking of the country. I must further explain that it is essential to my plan not to pay interest on the Exchequer notes, for that would complicate every transaction, and make the notes less available for every-day business.

Having now stated the nature and object of the proposed Government notes, the question arises, will they ever become depreciated? I reply, that they will not. It will not be legal for the Exchequer to issue any notes unless the full price has been paid for them, and of course nobody would purchase notes of them at the full price, if they could buy them in the market at a discount. It follows, therefore, the Exchequer bank notes can never fall to a discount or become depreciated in value. Exchequer notes, as now defined, cannot be called fictitious money, for the full sum they represent has been paid for them in gold and Bank of England notes. They will pass from hand to hand, and be the means of transferring the money they represent from one person to another. The Bank of England will at once purchase large quantities of these notes to hold against their own issues of notes. Large sums will likewise be taken by the other banks in England, Scotland, and Ireland, to hold against their issues. These sources alone will probably absorb the greater part of the issue of £20,000,000.

That the proposed issue of Notes will be acceptable to the Government cannot be doubted, for it will enable them to pay off the £11,000,000 due to the Bank of England without adding to the national debt. But this is not all for it will effect a saving of £800,000 per ann. in interest as there will be no interest to pay on the Exchequer Notes. A considerable reduction of taxation will thus be effected which will be a great boon at a time when the revenue is likely to fall off owing to the present depression of trade.

Two letters have appeared in the Newspapers which disapprove of my scheme without attempting any refutation of it; and as condemnation without refutation amounts to nothing, I might have passed them ever in silence. For the sake, however, of meeting every possible objection, I will now refer to them very briefly. The first letter alludes to the Assignats of the first Napoleon, and the last to the "Greenbacks" of Abraham Lincoln, and both writers assume that Exchequer Bank Notes will be the introduction of a similar system into this country. Now I deny that there is any similarity between the two systems, for my proposal is limited to £20,000,000, while theirs is without limit; and, while Napoleon and Lincoln sold or sell their issues at a depreciated value, the notes I propose for this country cannot be issued except at their full value.

My proposal is based on the assumption that there is a real want of inconvertable notes. If, however, on trial it be found that no such want exists, no Exchequer notes will ever make their appearance; but, if such a want really exists, they will be taken by the public with

eagerness. The objections, therefore, which have been raised on the assumption that the proposed Exchequer notes will be depreciated, fall to the ground, for that can never happen if my plan be carried out in all its integrity. It will only be the abuse of the plan and not by its use that any evil results can follow, and it is not fair to estimate the value of any reform on the assumption that it will be abused. We have only to surround the plan with the necessary checks by Acts of Parliament to prevent its abuse, and I am happy to say that in the present instance these checks can easily be made sufficiently stringent to meet any possible contingency.

The property moveable and fixed of the nation may be valued at six billions pounds sterling. If all the mortgages on property, all the cheques and bills of exchange, and all other debts and liabilities were paid off, nothing but actual property would remain. Suppose that every one was to make a return of what he was worth, adding what was owing to him and deducting what he owes to others, the gross amount of the national worth would be £6,800,000,000. From this amount the national debt will fall to be deducted, and the nett sum of six billions will remain, which represents the entire wealth of the nation. It will be observed that in this estimate I have added nothing for floating capital, for if the whole of our liabilities were liquidated or discharged, there would be no floating capital left. I cannot conceive of floating capital having any existence if all our lendings and borrowings were squared off and settled, except in the shape of goods and fixed property, for what would it be? it would be nothing and nowhere. I therefore conclude that the entire wealth of the nation is represented by its property, moveable and fixed.

It is the vast amount of our national debt which creates so much floating capital, an evil which it would be difficult to exaggerate. The larger the amount of floating capital, the more difficult is it to keep it afloat, and that is the reason why England, which has double the amount of floating capital of any other nation, suffers so much more from monetary panics than any other country. France is not burdened with half the amount of debt that we are; she consequently suffers much less from financial convulsions than we do. America will soon have a debt equal to our own, but as she cannot be supposed to have sufficient property to represent it, she is not likely to be able to keep her debt afloat, or pay interest on it, for any length of time. Repudiation was the end of the assignats of France, and it is probable that the greenbacks of America are destined to meet the same fate. The proof that the debt of England is legitimate, and not beyond our means, is that we have always been able to pay interest on it, but that is not likely to be the case in America, which is a young country only half developed.

The enormous amount of our floating capital caused by our large national debt and equally large and increasing trade, calls for a complete reform of our Currency Laws. We cannot pay off our debt or reduce our trade without injuring ourselves, but we can deprive a necessary evil—a large floating capital—of its sting by the introduction of a new species of currency (Exchequer Notes), which will give stability and a power of expansion to the whole system. In these

pages I have shown how this great and comprehensive reform may be effected, and how a heavy national debt may be made much less burdensome than it has been hitherto. The subject may now be considered exhausted, as I am not aware that I have left a single question unanswered or unexplained. If however any thing has been overlooked, I will be glad to supply the omission, and meet any objections that may be raised.

I shall conclude by stating the leading benefits which the introduction of Exchequer Bank notes will confer on the nation:—1st. It will enable the Legislature to make it imperative on all the banks to hold Gold and Exchequer notes to the extent of at least two-thirds of their issue of notes, for the security of the public, which cannot be done at present, owing to the want of gold. 2nd. It will make the rate of interest at all times much more uniform than heretofore, which will be a great benefit to trade. 3rd. It will prevent the occurrence of any commercial crisis arising from the want of gold or the fear of that want;—we may have commercial crises from the want of capital but never from the want of gold. 4th. It will effect a saving to the Government of at least £800,000 per annum in interest and allow it to pay off its debt to the Bank of England without adding to the National Debt. 5th. It will greatly increase trade and commerce, for in the absence of money crises, trade will increase naturally which will enlarge the revenue and enable the Government to reduce taxation. 6th. It will enable the Legislature to apply the principle of Free-Trade to money as well as to corn and other commodities, by abolishing all restrictions on the issue of notes. All parts of our commercial code will then harmonize instead of being divided against itself as it now is, for so long as one part of our commerce is based on protection and another part on the opposite principle of Free-Trade, that must be so.

That Banking and Currency Reform, as now proposed, is equal in general importance to the Repeal of the Corn Laws cannot be doubted, for while free trade in corn gives a cheap loaf to every household, free trade in Banking and Currency will give the money to buy it. The one reform without the other is only a half measure. In carrying out this great reform I doubt not we shall have the earnest and active support of Mr. Cobden and his party. I trust we shall likewise have the support of Mr. Gladstone, the Chancellor of the Exchequer, who will thus add to his great reputation by becoming the author of one of the greatest and most beneficial reforms that was ever effected in this or any other country.

The loss occasioned by money crises may he estimated at £100,000,000 sterling every ten years, at the very least. Such being the fearful loss occasioned by the present imperfect system of currency and banking, the benefit of the proposed new system to all classes of the community may be estimated. And seeing that the adoption of Exchequer Bank Notes will for ever prevent the recurrence of these fearful scourges on the industry and wealth of the nation, I trust I need offer no apology for bringing the proposal fully and fairly before the public.

72, Sloane Street, London.
January, 1865.

The following Letter appeared in the "Money Market Review" of 21st Jan. 1864 :

EXCHEQUER BANK NOTES.

TO THE EDITOR OF THE "MONEY MARKET REVIEW."

Sir,—I hope you will allow me to make a few remarks in reply to the letters of "J. W." and "A Subscriber," which appeared in the "Money Market Review" last week.

The object of my letters, proposing an issue of Exchequer Bank Notes, was to show that the want of gold has been the main cause of money panics, and that I had found a substitute for gold, which would at all times prevent the occurrence of a money panic arising from the want of gold or the fear of that want. If your correspondents wish to attack my plan in good earnest, which they are quite welcome to do if they can, they must be prepared—first, to say that the want of gold has nothing to do with commercial crises or exorbitant rates of interest; and, second, that the remedy I propose for the want of gold is not a remedy at all. These are the questions which have been raised, but your correspondents, in pronouncing my scheme a fallacy, have conveniently passed them over.

Any one may assure himself that the want of gold is the great cause of our monetary difficulties if they will look over the money articles of the daily and weekly press for the last three months. Take the Money Market Review of this week as an example. You say, "The panic of 1847 was due to one cause alone—the export of bullion to buy food. The great railway speculation which preceded it rendered the money market more sensitive than it would have been without it, but the export of bullion produced the panic, and without that export there would have been no panic." Now turn to the *Times* of the 6th December last. That journal says:—"The withdrawal of 260,000 sovereigns for Egypt, which took place yesterday, created as much anxiety this morning as if the resources of the Bank were at a point at which the slightest reduction would necessitate a return to the most stringent measures." These remarks not only prove the existence of panic, but they point out the cause of that panic. Those who were best able to judge felt that the entire trade of the country was placed in jeopardy by a single shipment of gold.

Your correspondents recommend me to look at the state of affairs during the twenty-two years, from 1797 to 1819, when cash payments were stopped by Act of Parliament, which caused a depreciation of bank notes of thirty per cent. If they mean to say that the Exchequer notes now proposed can ever be depreciated, I meet that assertion by a flat denial, for so long as the Government accepts their own notes in payment of duties, and they debar themselves from issuing notes, except on payment in full, it is impossible that Exchequer bank notes can ever fall to a discount.

The contingency of a stoppage of cash payments is the very thing I wish to prevent and avoid by the introduction of a limited amount of inconvertible notes, for until we do that we shall always be exposed to that danger. It is the fear of that contingency which causes a panic and a crash, and we all know how near we were to that only two months ago. Let us not imagine, because we have tided over the present difficulty, that the danger is past, for the causes of danger remain, and until these causes are removed we must expect a renewal of panics. Neither let it be supposed that we are only to have panics once in ten years as before. Our trade has assumed such vast proportions of late years that the past can no longer be taken as the index of the future. No, the chances are that we shall now have panics much oftener, which shows how necessary it is to apply the remedy without delay.

I agree with your correspondents that my scheme would not make us entirely independent of gold, which is neither desirable nor practicable. It would only enable us to maintain the convertibility of Bank of England notes, and so prevent a suspension of cash payments. At present, we have no security against that suspension, for although the Government has made itself responsible for the payment of Bank notes by declaring them a legal tender, yet if the Government were called on to redeem its promise to pay, it could not do so. Then an Act of Parliament suspending cash payments would be passed, as was done in 1797, which would once more throw the whole affairs of the country into a state of disorder and ruin. But with inconvertible Exchequer notes in circulation, or with power to the Exchequer to issue such in case of need, a suspension will be impossible, which will be the best possible basis of confidence, without which there is no security against the occurrence of a panic.

Your correspondents assert that the public would not be disposed to take the notes of the Exchequer, but as these notes would be as safe a security as Consols, their fears on that point must be groundless, for Consols have always been considered the best of all securities. It will be, of course, optional with the public to buy Exchequer notes of the Government, and it can surely do no harm to give the public power to do so if it think fit. If your correspondents will read my pamphlet on "Banking and Currency," their fears on that point will be removed.

72, Sloane Street, January 17, 1865. A. Alison.

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